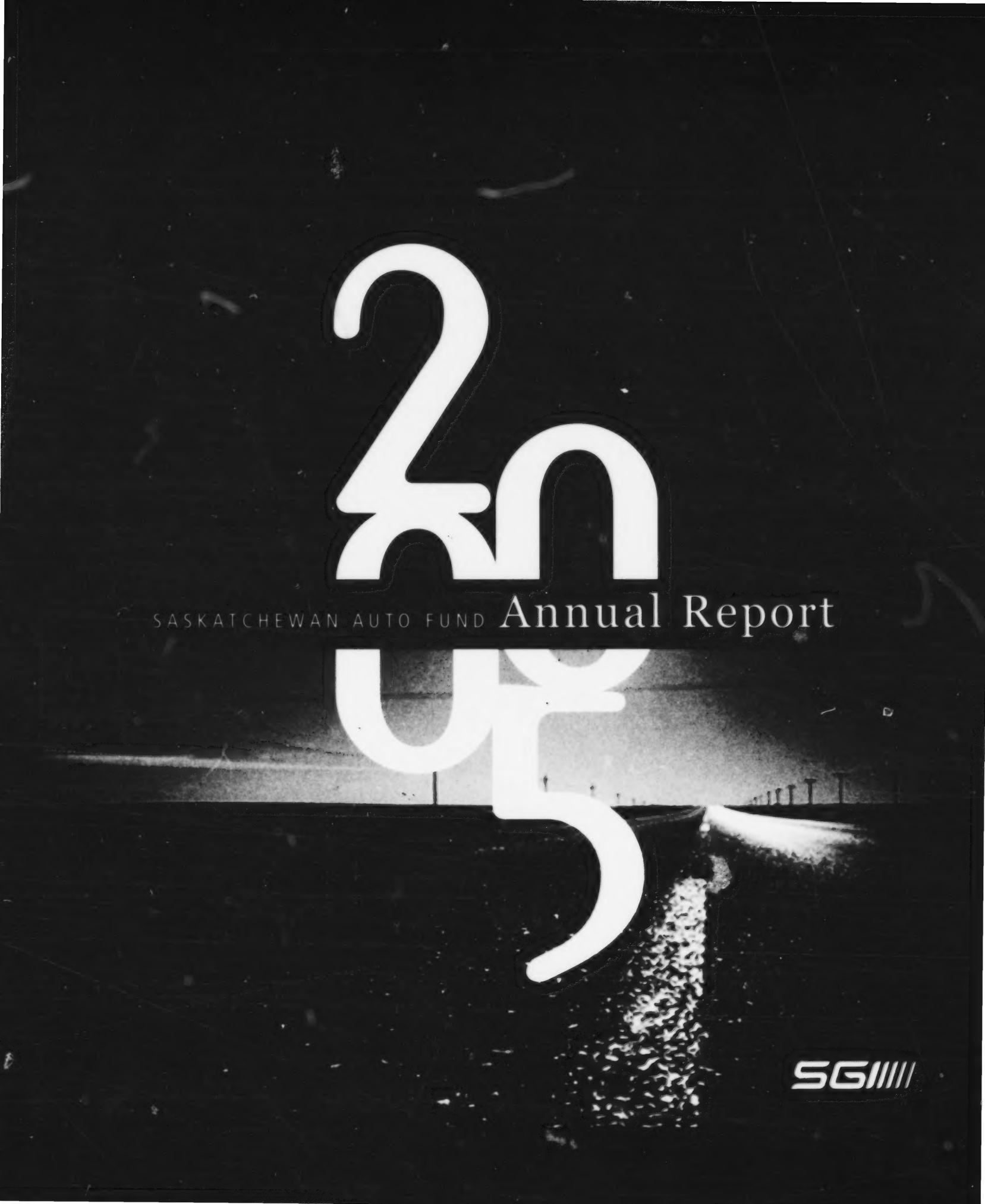
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SASKATCHEWAN AUTO FUND Annual Report
SGI

Vision

We will be the best customer-driven and affordable automobile insurance plan in Canada.

Values

Integrity

Conducting ourselves with honesty, trust and fairness

Caring

Acting with empathy, courtesy and respect

Innovation

Implementing creative solutions to achieve our vision

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2005 SASKATCHEWAN AUTO FUND ANNUAL REPORT

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Letter of Transmittal

Regina, Saskatchewan

March, 2006

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Auto Fund for the year ended December 31, 2005, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act.*

I have the Honour to be, Madam,

Your obedient Servant,

Glenn Hagel.

Honourable Glenn Hagel
Minister Responsible for Saskatchewan Government Insurance

2005 was a special year for SGI as we celebrated our 60th anniversary.

Although much has changed since we first opened our doors, SGI's unwavering commitment to its customers and to the Province of Saskatchewan remains unchanged.

Today, SGI continues to achieve the goals set out for the Corporation in 1945 by providing its customers with quality products and services, while maintaining the lowest auto insurance rates in the country.

The Auto Fund enjoyed another strong year financially by posting a $61 million surplus in 2005, resulting in a $163 million balance in the Rate Stabilization Reserve at year end.

However, this is not the time to become complacent. We will continue to work hard, adapt and overcome challenges in order to achieve our goals.

In 2006, the Auto Fund developed a new corporate vision statement – to be the best customer-driven and affordable automobile insurance plan in Canada. By saying we want to be "customer driven," we mean we want to anticipate and then exceed the needs of our customers. The other key term in our new vision is "affordable." We want to ensure we're offering our customers the best we can in terms of coverage and service – but we want to balance those needs with keeping rates low. We know that's what our customers want too. If we're successful in achieving this vision, ultimately we will have the best automobile insurance plan in Canada.

In order to achieve this vision and continue to move forward as a company, the Auto Fund operates under the guidance of key strategic areas – our Customers, our People and our Business Technologies. In 2005, all of the Auto Fund's activities were tied to these key areas, moving us toward achieving our vision. They're discussed in greater detail in the MD&A section of this report.

Listening and responding to our customers is what has set SGI apart in the insurance industry for over 60 years. It is our goal to be customer driven.

We achieved this goal in 2005 by delivering the lowest rates in Canada, offering outstanding customer service and continuing to be a national leader in promoting road safety.

The series of improvements made to the Safe Driver Recognition program in 2005 speaks to this commitment.

Effective Jan. 1, we doubled the discount provided under Safe Driver Recognition to a maximum of 20% and Business Recognition to 10%. Since the introduction of the Safe Driver Recognition program, we have increased discounts and rates have not increased since 2000.

And we took action to recognize the province's safest drivers – our platinum customers – by enhancing the Safe Driver program so that even after they reach +10 and earn the highest discount, customers will continue to earn a safety point for every year they drive without causing a collision or earning a traffic conviction. Beginning Jan. 1, 2006, the maximum number of safety points a customer can accumulate will be +11. The points above +10 will act as a cushion, protecting customers with long histories of safe driving from the impact of future incidents. SGI plans to continue to increase the number of safety points available each year to a maximum of +16.

In total, customers earned over $67 million in discounts in 2005 as a result of the Safe Driver Recognition program and almost $4 million for the Business Recognition program.

However, in order to maintain the lowest rates in Canada, the Auto Fund needs the security of a sufficient Rate Stabilization Reserve. The reserve is needed for two main reasons: to meet policyholder obligations for policies sold that expire after year end; and to cushion our customers from rate shock in the event of a downturn in financial results. That, in turn, allows us to provide our customers with stability in the Auto Fund's coverage and rates.

SGI has not raised automobile insurance rates since 2000. Thanks to the 2005 surplus of $61 million, the Auto Fund's Rate Stabilization Reserve sits at a balance of $163.3 million. This is more than is needed, and in 2006 SGI will provide 520,000 customers with an 8% rebate on the insurance premiums they paid for 2005 coverage. We expect the rebate to total $45 million. In addition, customers can expect to earn $75 million in safe driver discounts and rates will not increase in 2006. This is the sixth year that customers have enjoyed stable rates without any increase.

Providing low rates is only the beginning. We also have a vested interest in providing value for our customers in non-monetary ways, and we take great pride in directly responding to their requests. In 2005, the Auto Fund made improvements to the licence plate system, introduced a licence plate for veterans and perpetual plates for farm and commercial trailers, introduced a graduated driver's licence program for new drivers, provided customers with a credit card payment option, increased injury income benefits to our most seriously injured customers and launched eClaim, which provides customers with a convenient way of reporting claims and booking appointments for damage appraisals to their vehicles online. By continuing to listen to its customers, the Auto Fund is able to provide increased value to them.

In 2005 we embarked on a major project that will revitalize the Auto Fund's computer system (which has been around since 1960) and offer renewed service to our customers. The Auto Fund relies on its technology and information system to deliver its products and services. The current system is antiquated and is becoming increasingly difficult to change to meet growing business demands. During 2005, an analysis project was completed to investigate the redevelopment of the Auto Fund information system. The new system will address the antiquity of the current system, offer more choices for customers, provide better and more accessible information, allow the Auto Fund to respond more quickly to its customers and better position itself for future demands. A $35 million Redevelopment Reserve was established to meet the Auto Fund's commitment to this major project, which will take about five years to complete.

SGI employees and our network of independent brokers and motor licence issuers worked hard in 2005 to achieve these results and I am confident that their efforts will continue in 2006 as we work to provide our customers with the best automobile insurance plan in the country.

Jon Schubert
President and CEO

Rates

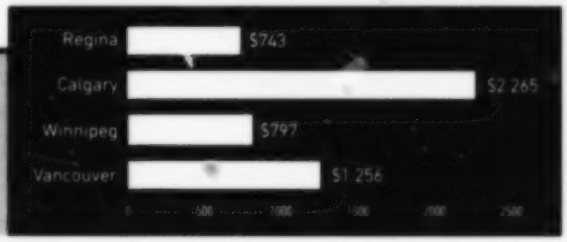
Saskatchewan customers continued to benefit from the lowest auto insurance rates in Canada in 2005.

Under the Safe Driver Recognition and Business Recognition programs, most Saskatchewan motorists pay even less. On Jan. 1, 2005, we more than doubled the discount provided under Safe Driver Recognition to a maximum of 20% and under Business Recognition to 10%.

In total, safe drivers earned almost $72 million in discounts in 2005.

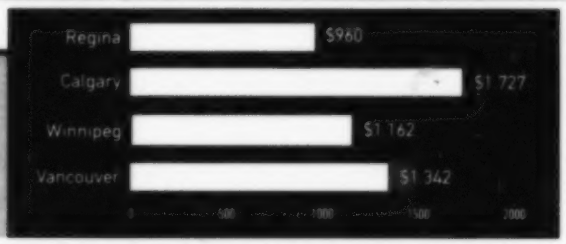
Susan Green

Vehicle	1996 4-door Ford Taurus
Use	Pleasure
Primary driver	Female, 42 years old, clean driving record
Occasional drivers	Male, 48 years old, clean driving record; and male, 17 years old, clean driving record



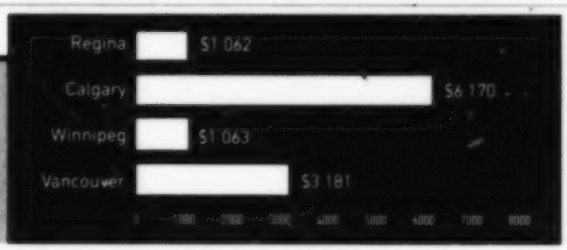
Jared Brown

Vehicle	2003 Dodge Grand Caravan
Use	Business
Primary driver	Male, 40 years old, clean driving record



Brian White

Vehicle	1993 2-door Chevrolet Cavalier Z24
Use	Pleasure
Primary driver	Male, 19 years old, one at-fault collision



Saskatchewan: Auto Fund coverage plus SGI CANADA extension ($200 deductible collision and comprehensive, $2 million third-party liability)
Alberta: CompuQuote ($250 deductible collision and comprehensive, $2 million third-party liability)
British Columbia: Insurance Corporation of British Columbia ($300 deductible collision and comprehensive, $2 million third-party liability)
Rates have not been audited.

Rebate

SGI has not raised auto insurance rates since 2000. We're also putting money back in our customers' pockets with a one-time 8% rebate to Saskatchewan vehicle owners.

The Auto Fund had a very strong year financially, thanks to safer driving by Saskatchewan motorists which meant fewer collisions and lower claim costs. The Auto Fund has a $61 million surplus - $45 million of which we're returning to about 520,000 customers through this one-time rebate. The remaining $16 million will be added to the Rate Stabilization Reserve, allowing us to provide our customers with stability in the Auto Fund's coverage and rates.

The rebate applies to all vehicles, and is calculated on vehicle insurance premiums prior to any discounts earned through the Safe Driver Recognition and Business Recognition programs.

The rebate is another example of how we are working to achieve our vision of being the best customer-driven and affordable insurance plan in Canada. The rebate is an added benefit to our customers, who already pay the lowest auto insurance rates in the country. Our customers helped us attain this solid position and earned this rebate.

In total, we're returning $120 million to our customers in 2006 - $45 million through this one-time rebate and another $75 million in safe driving discounts.

How do we keep our rates low?

The Saskatchewan Auto Fund is an insurance program that operates on a break-even basis over time. Another factor in our low rates is the Auto Fund's philosophy that all drivers should be treated equally unless their driving record shows they are a greater risk for causing a collision. SGI doesn't use a driver's age, gender or where they live to determine insurance rates.

In dollars and cents, that helps SGI to have among the lowest administration costs of any insurance company in the country – again meaning our customers pay less. On average over the last five years, the Auto Fund has returned 90 cents of each premium dollar to customers in the form of claim payments and traffic safety programs.

Traffic Safety

SGI also gives back to its customers by supporting various programs and services in the community.

Paying special attention to such issues as traffic safety, crime prevention and rehabilitation programs, SGI was able to make a difference in 2005 and to ensure we continue with our vision of being the best automobile insurance plan in Canada.

SGI continued to increase its profile with the province's Aboriginal peoples by visiting First Nations communities to promote traffic safety and injury prevention. We sponsored a new road safety exhibit – Street Rally-the Science of Road Safety – at the Saskatchewan Science Centre and we furthered our commitment to educating the public on the importance of road safety through a number of traffic safety initiatives.

Over the past 60 years SGI has taken a lead in the area of road safety programs, education and legislation. The specific safety issues that SGI focuses on are determined by ongoing review of traffic

TRAFFIC SAFETY PRIORITY AREA	TARGETS	PROGRAM RESULTS TO DATE (2005)
Impaired driving	40% reduction in the proportion of fatal and injury accidents involving alcohol compared to average from 1996 – 2001	15.8% average reduction for 2003 – 2005
New drivers	10% reduction in number of crashes involving new drivers compared to the average prior to the start of Graduated Driver's Licensing (GDL)	GDL implemented in 2005
Seatbelt use	Maintain Saskatchewan's ranking among top three provinces for seatbelt use	1st place in Canada
High-risk drivers	Reduce at-fault accidents by 60 accidents per 100 high-risk drivers per year	Reduction of 88 accidents per 100 high-risk drivers in 2005
Intersection safety	2:1 return on investment	Improved intersections have recorded a ratio over a 2:1 return on investment

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safety statistics. Most programs fall into five key areas: impaired driving, new drivers, seatbelt use, high-risk drivers and intersection safety.

In 2005, new safety initiatives were introduced such as Graduated Driver's Licensing for new drivers, the installation of red light cameras in Saskatoon, the expansion of the Saskatchewan Safety Council's voluntary motorcycle training program and the expansion of the Enforcement Overdrive program, targeting impaired drivers, to Estevan.

Whether it be spearheading programs like Enforcement Overdrive or drafting legislation that gets tough on drinking drivers, SGI is committed to protecting people on the road.

Graduated Driver's Licensing

In 2005 SGI implemented Graduated Driver's Licensing (GDL) for all new drivers, with the goal of saving lives and preventing injuries. GDL is designed to assist new drivers in gaining valuable experience as they work towards becoming fully qualified drivers.

The program is a staged introduction of new drivers into the driving environment. Drivers gradually move into higher-risk driving situations after gaining experience in lower-risk situations.

There are three stages to Saskatchewan's GDL – Learner, Novice 1 and Novice 2. As drivers pass through the stages, they see fewer restrictions at each stage until they graduate to an experienced Class 5 driver's licence. If a new driver displays good driving experience with no incidents or interruptions, they will graduate to a Class 5 licence in 18 months. Any incidents or interruptions delay graduation to an experienced licence.

Enforcement Overdrive

The Estevan Police Service joined the Enforcement Overdrive program in 2005 to crack down on impaired drivers.

The Enforcement Overdrive program began in Regina in 2001 with Saskatoon joining in 2002 and Prince Albert in 2003. It allows police to hold additional roadside check stops for impaired driving, with SGI funding the increased staffing costs.

Each year, the program results in tens of thousands of vehicles checked, taking additional drinking drivers off the road.

SGI knows it is important to give back to the communities in which we do business. Through sponsorships, volunteerism and donations-in-kind, SGI is helping to improve the quality of life for Saskatchewan residents.

SGI Street Rally – The Science of Road Safety

Science and road safety came together in 2005 with the opening of SGI Street Rally – The Science of Road Safety exhibit at the Saskatchewan Science Centre.

SGI contributed $35,000 toward the creation of this self-use exhibit designed to bring understanding of road safety to young visitors. Concepts like looking for traffic, traffic signals and traffic signs, play a significant role.

By using custom-made pedal cars, visitors can ride a roadway, watch for the green light on a real traffic light, stop for pedestrians, obey real traffic signs and follow general road safety procedures.

Tied to the exhibit is the science behind road safety. Visitors are able to learn how long it takes to stop on wet roads compared to dry roads, why it's easier to steer on pavement compared to gravel or why we use red as a stop sign colour.

The new exhibit is part of SGI's ongoing commitment to educating children on the importance of road safety.

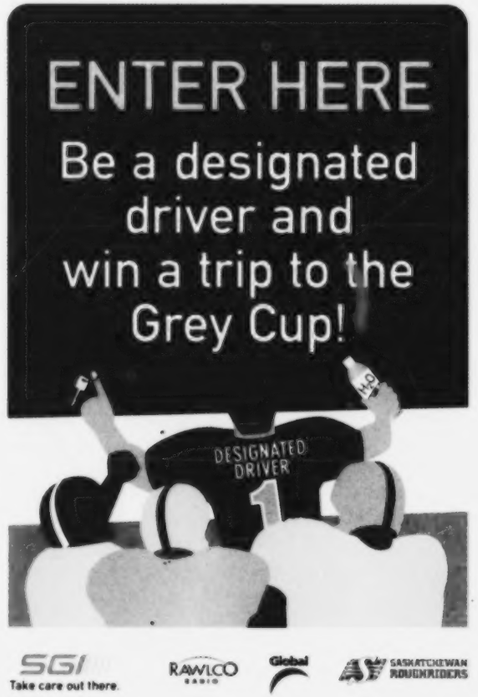
SGI and the Saskatchewan Roughrider's Designated Driver Program

SGI and the Saskatchewan Roughriders football club again teamed up to bring the Designated Driver program to Taylor Field at each home game in 2005.

The Designated Driver program encouraged Rider fans to always plan a safe ride home. To assist with that plan, SGI had booths set up at the stadium where fans could register themselves as designated drivers, promise not to drink alcohol and drive their friends and family home safely.

Every person who registered at the booths was automatically entered into the grand prize draw for a trip for two to the Grey Cup in Vancouver.

By simply deciding to not drink and drive during Rider games throughout the season, Kindersley resident Joanie McLay won a trip to the big game, and more importantly, was able to offer her friends a safe ride home after Rider games.



SGI also supports other designated driver programs at events throughout the province including the Ness Creek Folk Festival, the Premier Festival in Saskatoon and the Folkfest in Regina and Saskatoon.

SGI furthered its commitment to Aboriginal communities by having two Community Relations Coordinators travel to all corners of the province to promote traffic safety and injury prevention. In 2005, 95 presentations were done and people in 33 communities were trained on the proper use of child safety seats, helping to maintain a strong presence in Saskatchewan's Aboriginal communities.

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Lids 4 Kids

SGI, along with Mosaic Potash, the Saskatchewan Safety Council and Safe Saskatchewan implemented the "Lids 4 Kids" program, where school classrooms were "adopted" and bicycle helmets were distributed along with a certificate that indicates the child pledges to wear their helmet every time they ride their bike.

The special partnership is part of SGI's continuing emphasis on the importance of wearing safety-approved helmets when operating a bicycle. SGI and Mosaic share the purchase of the helmets that are distributed to classrooms across the province.

Introduction

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to Feb. 22, 2006. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Board of Directors approved this MD&A at its meeting on Feb. 22, 2006 after a recommendation to approve was put forth by the Audit and Finance Committee.

Overview

The MD&A is structured to provide users of the Saskatchewan Auto Fund (denoted as the Auto Fund or the Fund) financial statements with insight into the Auto Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, 2005 results, liquidity and capital, critical accounting estimates, upcoming changes in announced accounting policies, risk management and the outlook for 2006. The information contained in the MD&A should be read in conjunction with the financial statements, notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

The following table of contents provides a quick reference to the main sections within this MD&A.

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The Saskatchewan Auto Fund

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act* creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that time, poor economic conditions had driven many insurers out of the province. Less than 10% of Saskatchewan licensed vehicles carried any insurance and there was a need for a compensation plan for persons injured in accidents.

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under *The Automobile Accident Insurance Act* (AAIA). The Saskatchewan Auto Fund was established effective Jan. 1, 1984 by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Saskatchewan Auto Fund is SGI. The role of SGI, as the administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan based on the legislative requirements contained in the AAIA.

The Auto Fund, as the compulsory automobile insurance program for Saskatchewan residents, provides vehicle registrations, driver's licences, the basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured's vehicle, subject to a deductible. The liability insurance coverage provides for a specific amount to cover property damage and/or injuries caused to another person. The Auto Fund also provides injury coverage that gives an option to choose between No Fault or Tort coverage. This basic insurance package allows a currently licensed vehicle to operate legally anywhere in Canada or the United States of America.

The Auto Fund is governed by legislation contained in the AAIA, *The Vehicle Administration Act, The Highway Traffic Act, The Motor Carrier Act, The All Terrain Vehicles Act* and *The Snowmobile Act* (the Acts) along with the related regulations created by these acts. The Auto Fund is also subject to legislation contained in *The Crown Corporations Act, 1993* and Part IX of The Insurance Companies Act (Canada) regarding the investments of the Auto Fund. The Auto Fund is subject to provincial privacy and access to information legislation contained in *The Freedom of Information and Protection of Privacy Act* and *The Health Information Protection Act*. There are also administrative, enforcement and other related duties under other provincial acts and regulations and under the federal Criminal Code.

The Auto Fund does not receive money from, nor pay dividends to, the Province of Saskatchewan, SGI or Crown Investments Corporation of Saskatchewan (CIC). CIC is SGI's parent corporation. The Auto Fund is operated on a break-even basis viewed over a long-term timeframe. Any annual financial excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and cannot be used for any other purpose by the government or the administrator.

The financial results of the Auto Fund are not included in the consolidated financial statements of SGI nor CIC's consolidated financial statements, as the Auto Fund is a fund of the Province of Saskatchewan. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements using the modified equity accounting method as permitted by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The Auto Fund at Dec. 31, 2005 has 422 motor licence issuers[1] in 318 communities across Saskatchewan. It also operates 21 claims centres and five salvage centres in 13 communities across the province along with seven branch licence issuing offices. The Auto Fund business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan.

The Auto Fund's annual report is available on SGI's website at www.sgi.sk.ca. Navigate to About SGI and then click on Financial Reports.

The Environment the Auto Fund Operates In

The Auto Fund's customers are all Saskatchewan residents as it provides all residents with automobile injury coverage with an option to choose between a No Fault or Tort product. As the sole provider of vehicle and driver's licensing in Saskatchewan, it operates based on legislative powers granted to it in the Acts. The Auto Fund is required to submit vehicle insurance rate changes to the Saskatchewan Rate Review Panel (SRRP) whose mandate is to evaluate the rate change and to provide an opinion on the fairness and reasonableness of the requested change. SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the provincial government.

The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 675,000 drivers (for approximately 879,000 vehicles) in Saskatchewan. Business partners range from independent motor licence issuers, autobody shops and law enforcement agencies, to health care providers. These business partners are involved in different aspects of the operations of the Auto Fund from licensing, road safety and repair of damaged vehicles, to the provision of medical care and rehabilitative services to those injured in motor vehicle accidents.

The Auto Fund's philosophy is that all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision. It does not use a driver's age, gender or where they live to determine a vehicle's insurance premium or the fee for a driver's licence. It has successfully maintained this philosophy while offering Saskatchewan customers low rates, proving its merit.

While it has been successful at offering the residents of Saskatchewan low rates, the Auto Fund does face challenges. Claim costs represent over 84% of the Auto Fund's costs in 2005. Over the last 10 years, damage claim costs have increased at an average annual rate of 3.7%, while personal injury costs have grown at approximately 2.9% annually.

On the damage side, new and advanced technology means vehicles are more expensive to repair. New vehicles also cost more to repair than older vehicles, and parts prices along with labour rates continue to rise. As a result, claim costs continue to climb as repair costs outpace inflation.

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[1] This and other terms are defined in the Glossary of Terms beginning on page 70.

Injury costs also rise on a yearly basis as No Fault injury benefits are indexed to inflation each year. As well, Tort and out-of-province liability claims, which are generally based on court awards, increase at a rate significantly higher than inflation.

The Auto Fund has not implemented a general rate increase since 2000 and continues to increase discounts for safe drivers through the Safe Driver Recognition program. The Safe Driver Recognition program places all drivers on a safety rating scale based on their driving history.

The initial maximum discount of 7% has steadily increased since the program began in 2002. Effective Jan. 1, 2005, the maximum discount more than doubled from 9% to 20%. The Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. On Jan. 1, 2005, the maximum discount available in the Business Recognition program was doubled to 10%. The cost to the Auto Fund in the form of lower premium revenue from these discounts was $71,634,000 for 2005 while in 2004, it was $24,818,000. The Auto Fund is expecting the total discount provided under both programs to be approximately $75 million in 2006.

Strategic Direction

During 2005 SGI developed a vision statement specifically for the Auto Fund. Its new vision statement is introduced in the President's message and is further discussed in the section, *Outlook for 2006*. The previous vision statement was for SGI overall and served to lead both the Auto Fund and SGI CANADA. While this served SGI well in the past, it did not reflect differences in strategic direction that have become apparent recently. While the vision has changed, the values under which the Auto Fund operates have not; the Vision and Values under which it operated during 2005 were as follows:

Vision through 2005

As a Saskatchewan-based insurance company we will set the industry standard for being highly valued by our customers.

Values

INTEGRITY	Conducting ourselves with honesty, trust and fairness
CARING	Acting with empathy, courtesy and respect
INNOVATION	Implementing creative solutions to achieve our vision

Corporate Strategy

The overriding strategic goal through 2005 was to administer the Auto Fund so that it is highly valued by its customers.

To meet the overriding strategic goal, the main areas of strategic focus during 2005 related to:

- Customer;
- People; and
- Business Technologies.

These areas are crucial for the Auto Fund to achieve its strategic goal. Within these three areas, there are various strategic initiatives and key targets to measure performance. The Auto Fund uses a Balanced Scorecard approach to monitor its performance and results. The objectives of a Balanced Scorecard are to provide a balanced evaluation of key operational and financial results, activities and achievements with both a short- and long-term focus. The following discusses key initiatives in each of these areas of strategic focus as well as the related key performance indicators from the Balanced Scorecard:

▶ Customer

As mentioned above, the Auto Fund's success is measured by being highly valued by its customers, the motoring public of Saskatchewan. It has developed certain key goals to achieve this: delivering the lowest average rates in Canada, offering outstanding customer service and working to reduce injuries and fatalities in motor vehicle crashes.

The Auto Fund has been successful in continuing to provide Saskatchewan customers with the lowest auto insurance rates in Canada. Effective Jan. 1, 2005, the maximum discount for the Safe Driver Recognition and Business Recognition programs more than doubled to 20% and 10% respectively.

There are many aspects that the Auto Fund focuses on to ensure its rates stay among the lowest in Canada. Control of costs is one area of focus and, as a result, the Auto Fund has been able to maintain lower administration costs compared to its peers in the insurance industry, allowing customers to pay less for their insurance. The Auto Fund has established a Balanced Scorecard target to monitor administration costs per insured vehicle compared to Manitoba Public Insurance and the Insurance Corporation of British Columbia, the other two government-owned insurers in Canada.

Investment earnings also contribute to reduced rates for Saskatchewan customers. A Statement of Investment Policies and Goals, approved by the SGI Board of Directors, is used by the investment manager to invest any excess funds of the Auto Fund. The investment policy allows for a diversified portfolio that can shift dependent on trend movement in the capital markets while maximizing

long-term returns. A Balanced Scorecard target has been established to achieve a return that outperforms an investment policy benchmark based on a surplus return over that achieved by various capital market indices. The investment policy is discussed further in this MD&A within the *Risk Management* section.

In order to maintain low rates into the future, it is important to maintain a sufficient RSR balance. An adequate RSR gives the Auto Fund the ability to cover all claim costs in the event of a catastrophic event, without the motoring public experiencing rate shock. During the year the methodology for determining an appropriate RSR for the Auto Fund was re-examined. A target has been established based on a formula called the Minimum Capital Test. The Minimum Capital Test is the predominant measure of capital adequacy in the insurance industry in Canada. It is discussed further in the *Capability to Execute Strategies* section of this MD&A. The Minimum Capital Test Balanced Scorecard target is 100% to 125% which at Dec. 31, 2005 equates to approximately $80 million to $115 million.

Being highly valued by our customers means doing more than having low rates. It means providing quality service and products that our customers want. In 2005, the Auto Fund introduced a new light vehicle class to make the vehicle registration system more fair and balanced for light vehicle owners and easier to understand. Also during the year, the Auto Fund made improvements to the licence plate system, introducing a licence plate for veterans and perpetual plates for farm and commercial trailers, as well as providing a credit card payment option for all Auto Fund transactions. By continuing to listen to its customers, the Auto Fund is able to provide value to its customers.

Customers also value the Auto Fund for its role in promoting road safety in the province. It is always looking at new and innovative ways to improve road safety. Over the years, SGI has evolved into a national leader in the area of road safety programs, education and legislation. Whether it be spearheading programs like Enforcement Overdrive or drafting new legislation that gets tough on drinking drivers, it is setting the industry standard when it comes to protecting people on the road. Balanced Scorecard targets have been established related to reducing injuries and fatalities and the Auto Fund is currently meeting or exceeding these targets.

The following table summarizes the key performance indicators in the Balanced Scorecard to monitor the above initiatives:

LEGEND: ■ achieved ▨ partially achieved □ did not achieve

MEASURE	2005 TARGET	2005 RESULTS	2006 TARGET
Cross-Canada rate comparison	Lowest average private vehicle rates in Canada	Saskatchewan has the lowest private vehicle rates in Canada	Lowest average private vehicle rates in Canada
Administrative costs per insured vehicle	Lower than both Manitoba Public Insurance and the Insurance Corporation of British Columbia	Lower than both Manitoba Public Insurance and the Insurance Corporation of British Columbia	Lower than both Manitoba Public Insurance and the Insurance Corporation of British Columbia
Investment portfolio return	Outperform the investment policy benchmark return	6.9% actual return versus benchmark return of 6.4%	Outperform the investment policy benchmark return
Maintain an adequate RSR	$90 million - based on Net Unearned Premium Risk and Catastrophic Injury Protection	RSR balance at Dec. 31, 2005: $163.3 million	$100-$150 million – based on a Minimum Capital Test target of between 100% to 125%
Claims customer service survey	91% satisfaction rating	89% satisfaction rating	91% satisfaction rating
Reduce fatalities and serious injuries due to motor vehicle crashes	To be 20% lower than the 1996-2001 average number of fatalities and serious injuries	8.1% reduction in fatalities and 38.8% reduction in serious injuries	To be 20% lower than the 1996-2001 average number of fatalities and serious injuries

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Cross-Canada rate comparison

The Auto Fund's Cross-Canada rate comparison is performed annually by considering Saskatchewan's 34 most popular vehicles and comparing to rates obtained from the public insurers in Canada. For the other provinces, quotes are obtained from Compuquote, an independent rate quotation service that obtains information directly from private auto insurers across Canada.

In 2004 the rate comparison conclu at Auto Fund customers benefited from the lowest auto insurance rates in Canada. While th ate comparison has not yet been completed for 2005, there have been no rate increases during 2005 and in fact, overall, rates have actually decreased with the significant improvements made to the Safe Driver and Business Recognition discount programs. Given these improvements we expect our rates to be the lowest in Canada again in 2005. For 2006, the Auto Fund's target is again to have the lowest average private vehicle rates in Canada.

Administrative costs per insured vehicle

This ratio is monitored to ensure that administrative expenses are being controlled so that more of each premium dollar can be used to cover customer claims and keep rates low. Based on the Auto Fund's 2005 financial statements, administrative costs per insured vehicle increased by $6 from $92 to $98, which is lower than the Insurance Corporation of British Columbia's (ICBC) and Manitoba Public Insurance's (MPI) administrative costs per insured vehicle in 2004. At the time of writing, details regarding ICBC and MPI's costs for 2005 were not available.

The target for 2006 continues for the Auto Fund's administrative costs per insured vehicle to be the lowest amongst the three public insurers in Canada, directly supporting the Auto Fund's new vision statement for the Auto Fund to be the best customer-driven and affordable automobile insurance plan in Canada.

Investment portfolio return

The Auto Fund's primary objective is to achieve a market value based rate of return superior to the rate of return earned on a benchmark portfolio. The benchmark portfolio return is based on capital market index returns weighted to be consistent with the Auto Fund's asset mix. The rate of return is measured over a four-year cycle. This longer-term measure has greater relevance and lower volatility than a one-year measurement. Over the period 2002 to 2005, the portfolio averaged an annual return of 6.9%, exceeding the benchmark portfolio average annual return of 6.4% by 0.5%.

Maintain an adequate RSR

The balance in the RSR at Dec. 31, 2005 was $163.3 million compared to an initial target of $90 million. In August, the Auto Fund revised how the target for the RSR should be determined. It was changed to

reflect the property and casualty insurance industry's standard capital adequacy test: the Minimum Capital Test (MCT). The new target is a range of 100% - 125% of the MCT, which equates to approximately $80 million to $115 million at Dec. 31, 2005. The use of a range avoids rate increases resulting from short-term declines in the RSR that may only be temporary.

As the RSR at Dec. 31, 2005 is above the target MCT range the Auto Fund was able to announce a one-time, 8% rebate to its customers to be paid during 2006. The Auto Fund anticipates this one-time rebate will return approximately $45 million to customers and brings the RSR balance to within the target MCT range in 2006. The 2006 rebate is discussed further in the section *Outlook for 2006*.

▶ People

SGI places a great deal of importance on the continuing education and training of its employees. Both technical and customer service training are emphasized. Training is evaluated on an ongoing basis to ensure it provides employees with the enhanced skills required for them to participate in achieving the Auto Fund's vision. People are key to the ability to meet goals and these objectives are discussed further in the *Capability to Execute Strategies* section of this MD&A.

The key performance indicators in the Balanced Scorecard to monitor these initiatives are:

LEGEND: ■ achieved ☐ partially achieved ☐ did not achieve

MEASURE	2005 TARGET	2005 RESULTS	2006 TARGET
Front-line staff receive customer experience training	All front-line staff receive this training	100% front-line staff have been trained	Train new employees
Training dollars per employee	$500	$832 spent per employee	$500
Employee engagement	Suvery staff	Employee survey was done in fall 2005	Develop and implement action plan based on results from survey. A follow-up survey is planned for 2007.

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▶ Business technologies

A common pillar supporting many of the Fund's strategies and initiatives is business technologies. Computer systems must be available in order to operate the business. If these systems were unavailable for a significant amount of time, business would suffer. To reduce the amount of potential down time, the Auto Fund, through SGI, has an agreement with a related party that provides alternative computing services if systems are unavailable for a significant amount of time.

The key performance indicator in the Balanced Scorecard to monitor the above initiative is:

LEGEND: ☐ achieved ☐ partially achieved ☐ did not achieve

MEASURE	2005 TARGET	2005 RESULTS	2006 TARGET
Availability of business systems	99.5% of designated hours of operation	**99.5% of designated hours of operation**	99.5% of designated hours of operation

Availability of business systems

This measures SGI's success in having its computer business systems available for use by staff and motor licence issuers during specific hours of the day and for specific days of the week. For 2005, SGI achieved its target of 99.5%. The target for 2006 is the same as 2005 and reflects the importance to operations of maintaining the availability of computer systems.

Capability to Execute Strategies

Fundamental to the capability to execute strategies, manage key performance drivers and deliver results are employees, motor licence issuers, technology and systems, and capital and liquidity. They are discussed further below:

Employees

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. Many employees have been with the Saskatchewan Auto Fund for a long time, on average 17 years; the turnover rate for the last five years has averaged 4%. Due to this long tenure and low turnover, employees have significant expertise in the core areas of the Auto Fund: licensing and registration, driver and vehicle safety services and claims handling, as well as within the support areas.

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SGI is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 680 employees are expected to retire, or to be eligible for retirement, by 2015. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGI is transitioning its succession plan to a workforce-planning model that will include aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

SGI and Saskatchewan Insurance, Office and Professional Employees' Union, Local 397 (COPE 397) signed a new three-year Collective Bargaining Agreement (CBA), running from Jan. 1, 2004 to Dec. 31, 2006, in June 2005. The CBA covers the majority of the non-management staff employed by SGI. SGI has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

Motor licence issuers

The Auto Fund provides accessibility for its customers by distributing products through a network of 422 independent motor licence issuers in 318 communities across Saskatchewan and seven branch offices throughout the province. In 2005, the Auto Fund and the Insurance Brokers' Association of Saskatchewan (IBAS), which represents the interests of Saskatchewan motor licence issuers, signed an Issuer Accord. The Accord is intended to enhance the working relationship between the Auto Fund and IBAS resulting in improved service to customers. Included in the Accord are 15 agreed upon items, ranging from fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people, along with teaming up on traffic safety programs.

Technology and systems

The Auto Fund relies on its technology and information system to deliver its products and services to the motoring public. The current system is antiquated and it is becoming increasingly difficult to make changes to meet growing business demands. During 2005, an analysis project was completed to investigate the redevelopment of the Auto Fund information system. The new system will address the antiquity of the current system, offer more choices for customers, provide better and more accessible information, allow the Fund to respond more quickly to its customers and better position the Auto Fund for future demands.

In 2005, the Auto Fund Redevelopment project was defined at a total cost not to exceed $35 million with an anticipated completion date by the end of 2010. A $35 million Redevelopment Reserve was established to ensure that adequate funding is available to meet the Auto Fund's commitment to this important project. SGI believes the Redevelopment Reserve is fiscally prudent, provides transparency on how the Rate Stabilization Reserve is being managed and communicates the Auto Fund's total financial commitment towards the Redevelopment project. The $35 million reserve was funded through an appropriation from the Rate Stabilization Reserve.

Capital and liquidity

Capital adequacy in the Auto Fund is important in order to avoid rate shock for customers and to keep rates the lowest in Canada. However, determining an appropriate amount of capital in the RSR can be very subjective. During 2005 the Auto Fund established a new target based on the property and casualty insurance industry standard measurement for capital adequacy: the Minimum Capital Test (MCT). The MCT is the predominant measure currently used in Canada to assess capital adequacy. It was developed by the Office of the Superintendent of Financial Institutions and has also been adopted by provincial regulators across Canada. The MCT is a risk-based capital adequacy formula that assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The MCT is a key target for the Auto Fund which is discussed in more detail in the above section *Corporate Strategy*.

As the Auto Fund belongs to the province, its legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. Since these traditional avenues for capital are not available to sustain the Auto Fund, it has to use premiums and fees from its operations, along with the income generated from the investment portfolio, to fund its future operations. If premiums, fees and income from the investment fund are not sufficient to sustain operations, it must increase rates. Rate changes are reviewed by the Saskatchewan Rate Review Panel, which then passes on its recommendations to the provincial government, which has the final authority to approve, modify or reject rate changes.

2005 Financial Results

Quarterly Financial Highlights

The following table highlights quarter over quarter results of the Auto Fund:

QUARTERLY FINANCIAL HIGHLIGHTS

(thousands of $)	2005					2004				
	Q4	Q3	Q2	Q1	**Year**	Q4	Q3	Q2	Q1	Year
Net premiums earned	$132,179	$135,113	$128,903	$123,759	**$519,954**	$130,459*	$135,223	$127,197	$119,089	**$511,968***
Claims incurred	110,543	101,535	129,042	119,088	**460,208**	120,582	70,299	70,198	131,610	**392,689**
Surplus/(deficit)	14,051	35,913	(1,331)	12,748	**61,381**	6,953*	70,685	54,187	(6,881)	**124,944***
Cash flow from (used in) operations	7,516	29,837	60,227	(17,066)	**80,514**	13,499	26,671	59,233	(24,996)	**74,407**
Investments	1,003,439	997,042	963,772	886,817		882,645	857,923	779,163	750,020	
Provision for unpaid claims	730,930	733,516	726,935	694,610		685,318	673,465	699,316	725,710	
Rate Stabilization Reserve	163,323	152,461	151,548	152,879		136,942*	132,343	61,658	7,471	

* restated

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2005:

- Net premiums earned have increased due to newer vehicles being included in the registered vehicle population mix that have a higher premium combined with an increase in the number of vehicles insured.

- Except for the first quarter, the Auto Fund generated positive cash flows from operations. Cash is typically low in the first quarter as the Auto Fund pays its annual premium taxes to the province in March. Premium taxes are based on premiums written and are approximately $26 million in both 2005 and 2004. When excess cash is available it is invested, which is reflected in the higher investment balance quarter over quarter.

For the three months ended Dec. 31, 2005

Since 2004, the Auto Fund has been preparing public quarterly financial reports. These reports are available on SGI's website at www.sgi.sk.ca. The following analyzes the fourth quarter of 2005:

The Auto Fund recorded a fourth quarter surplus of $14,051,000 compared to a surplus of $6,953,000 in the fourth quarter of 2004. The increase is primarily due to lower claim costs.

Net premiums earned for the fourth quarter of 2005 are $1,720,000 higher than the same quarter in 2004. This increase is due to a newer vehicle population mix that costs more to insure, combined with an increase in the number of vehicles insured. This increase is offset by higher discounts on vehicle premiums as the rebate percentage for our safest drivers doubled in 2005. Claim costs of $110,543,000 for the fourth quarter of 2005 are $10,039,000 or 8.3% lower than 2004 as winter driving conditions were better than average due to fewer winter storms in the fourth quarter 2005 when compared to 2004. Other expenses for the fourth quarter of 2005, excluding claims incurred, are $23,917,000, $3,724,000 higher than the same period in 2004.

For the year ended Dec. 31, 2005

Statement of Operations

Overview

The Auto Fund recorded a surplus of $61,381,000 for the year ended Dec. 31, 2005, compared to a surplus of $124,944,000 in 2004. The decreased surplus is primarily a result of a significant reduction in the estimated costs of prior year injury claims realized in 2004, which decreased costs in that year. The 2005 surplus continues to be strong, primarily due to favourable claims results in the current year and continuing strong investment earnings. The 2005 surplus increased the Rate Stabilization Reserve from $136,942,000 to $163,323,000 in 2005.

As a result of continued strong performance in the Auto Fund, it was able to reward customers by implementing several initiatives in 2005 including:

- Doubling the Safe Driver and Business Recognition discounts to 20% and 10% respectively effective Jan. 1, 2005;
- Increasing injury benefits to claimants seriously injured prior to 2002, estimated to cost the Auto Fund $21,837,000; and
- Accepting credit cards from customers as a source for payments effective Nov. 1, 2005.

As well, initiatives that will be implemented during 2006 include:

- Improving the Safe Driver Recognition program to recognize "Platinum" customers, or the safest drivers, by allowing these drivers to earn a safety rating in excess of +10, building a cushion that will lessen the impact if the driver is responsible for a traffic incident in the future; and
- Offering a one-time 8% rebate to customers who were policyholders during 2005, subject to certain restrictions. This rebate is expected to result in a return of approximately $45 million to customers from the RSR.

The financial costs of the 2006 initiatives are not included in the 2005 operating results, but will be included in 2006 cost of operations.

Premiums written

Total net premiums written in 2005 equaled $519,691,000; a 1% or $5 million decrease over last year's total of $524,724,000. 2005 marks the fifth consecutive year with no rate increase in the Auto Fund. Doubling the maximum Business Recognition discount to 10% and more than doubling the Safe Driver Recognition discount to 20% resulted in total discounts of $71,634,000 in 2005, compared to $24,818,000 in 2004. The higher discounts are offset with a newer vehicle population mix which means the premiums are higher, combined with an increase in the number of vehicles insured. In 2005, 879,429 vehicles were insured, compared to 862,853 in 2004, an increase of 1.9%.

Claims incurred

Claims incurred in 2005 were $460,208,000, 17% higher than the $392,689,000 recorded in 2004. The increase is due to: (1) enhanced income benefits introduced in 2005 for people injured in accidents prior to August 2002 of $21,837,000 along with (2) a lower reduction in the actuary's estimated cost of prior year injury claims of $43,826,000 compared to $79,110,000 in 2004. The following table breaks down claim costs by categories:

▶ (thousands of $)	2005	2004	Change
Current year damage claims	$ 283,398	$ 283,527	$ (129)
Current year injury claims	190,338	185,387	4,951
Pre-1995 injury claims	2,397	4,021	(1,624)
Injury prior year redundancy	(43,826)	(79,110)	35,284
Damage prior year deficiency (redundancy)	6,064	(1,136)	7,200
Income benefits enhancement	21,837	-	21,837
Total claims incurred	$ 460,208	$ 392,689	$ 67,519

Damage claims of $283,398,000 were consistent with the prior year. While the Auto Fund experienced a 1.8% increase in the average cost to repair vehicles in 2005, it benefited from a 2.0% decline in the volume of claims.

Injury claims increased during the current year due to an increase in the average cost of injury claims of approximately 16%, offset by approximately 12% fewer injury claims than in the prior year.

The accident frequency per 1,000 insured years at year-end is 107, compared to 110 for the same period in 2004.

Development on prior year claims estimates

During 2005 the Auto Fund reduced its estimate for prior year injury claims by $43,826,000 compared to $79,110,000 in 2004 and increased its reserves for damage claims by $6,064,000. With the assistance of an actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a "redundancy" exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a "deficiency" exists, resulting in an increase in claim costs for the year.

As can be seen from the above table, the actuary's estimates for injury claims have been too high the past two years resulting in redundancies, which have a positive impact on profitability. On damage claims there is a deficiency in the current year resulting in an additional cost to the Auto Fund. In calculating the ultimate loss estimates, the actuary uses historical data to determine what the ultimate cost of a particular loss year will be. When the no-fault injury program was implemented in 1995, the actuary had no historical data on which to rely. With ultimate costs much more difficult to estimate, the external actuary provided a

conservative estimate of ultimate losses. While the program is still relatively new, considering that some people will be receiving benefits for the rest of their lives, the actuary now has over 10 years of data on which to base estimates. This expanded data shows that the ultimate loss estimates have been overly conservative and therefore have been reduced accordingly.

Income benefits enhancement

Effective June 2005, an amendment was introduced to *The Automobile Accident Insurance Act* to increase benefits to seriously injured customers who were injured prior to August 2002. The impact of the improved benefits was $21,837,000 and was recorded during the second quarter of 2005. Of the $21,837,000, $18,396,000 relates to pre-1995 claims and $3,441,000 relates to No Fault injury claims between 1995 and 2002.

Expenses excluding claims incurred

Expenses excluding claims incurred are $86,220,000 (2004 – $79,102,000) for the year, $7,118,000 more than 2004. Issuer fees have increased $2,820,000 due to a negotiated rate increase with issuers combined with an increase in the number of issuer transactions. Administrative expenses have increased $2,260,000 primarily due to costs incurred for the analysis phase of the Auto Fund Redevelopment project. Premium taxes have increased in correlation with the increase in net premiums earned. Traffic safety program spending increased $1,673,000, which represents 2.1% of premiums earned. Generally, the Auto Fund targets approximately 2% of premiums earned to be spent on traffic safety programs.

Investment earnings

Investment earnings in 2005 of $67,679,000 were $4,435,000 higher than last year's earnings of $63,244,000. The increased earnings were a result of a larger investment portfolio. The average size of the portfolio during 2005 was $982,251,000 compared to $869,169,000 in 2004. The actual return on the portfolio declined in 2005 to 6.9% from 7.3% the previous year. The decline in the return on investment was mainly a result of fewer gains on sale of investments, which provided a return of 3.2% compared to 3.4% last year. Investment writedowns of $4,943,000 in 2005 were $363,000 lower than the previous year.

Other income

Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term payment option programs, as well as net income from the Salvage division. In 2005, fees earned for using payment option plans increased to $14,159,000, $172,000 or 1.2% higher than the previous year. Salvage income of $6,017,000 in 2005 was $832,000 lower than last year.

Statement of Operations - Actual versus Budget

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year.

The Auto Fund's 2005 budget, developed in the fall of 2004, anticipated a loss of $5,642,000 in 2005. The Auto Fund actually recorded a surplus for the year of $61,381,000, a difference of $67,023,000. Most revenue and expense categories were close to forecast with the exception of the Auto Fund's most volatile categories, claims incurred and investment earnings.

Claim costs were $53,381,000 lower than expected due in part to a change in the actuary's estimate of the cost of prior year claims of $35,365,000. The budget does not include an estimate for a change in the actuary's estimate of prior year costs and, therefore, this net redundancy results in a variance to budget. Also contributing to the decrease in claim costs was a lower volume of claims reported than planned for all classes of claims in 2005. Offsetting these decreases to claims incurred was an unbudgeted cost of $21,837,000 recorded during the year to increase benefits to customers seriously injured prior to August 2002.

The investment portfolio provided earnings of $67,679,000, which was $15,244,000 or 29.1% higher than the planned investment earnings. The budget anticipated a 5.7% book value return on the portfolio compared to the actual return of 6.9%. This difference is due primarily to gains realized on the sale of investments being $16,951,000 more than expected, net of writedowns. As gains on the sale of investments are somewhat dependent on trading activity of the investment manager as well as capital market performance, they are typically difficult to budget accurately.

Statement of Cash Flows

Operating activities

The Auto Fund continues to generate healthy cash flows from operations. In 2005 it generated $80,514,000 (2004 – $74,407,000) or an 8% increase from a year ago.

Investing activities

Surplus cash from operations is invested in the Auto Fund's investment portfolio. The investment manager actively trades the Auto Fund's investments in the capital markets. Purchases were made of $2.0 billion and proceeds from the sale of investments of $1.9 billion occurred during the year, resulting in net purchase of investments of $92,913,000. The primary sources of cash used to fund this net purchase of investments was cash generated from operations.

Statement of Financial Position

Cash

Cash and cash equivalents at Dec. 31, 2005 were $21,764,000 (2004 – $35,714,000) a decrease of $13,950,000. The sources of the change in cash for the year are described in the above section *Statement of Cash Flows*. Cash equivalents consist of treasury bills with a maturity of 90 days or less from the date of acquisition.

Receivables

Receivables increased $6,013,000 to $124,332,000 in 2005 from $118,319,000 in 2004. The majority of this increase is due to financed premiums receivable which increased $4,600,000 to $100,197,000 at Dec. 31, 2005. This receivable represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed and the remainder in monthly instalments. The policyholder also pays an additional charge for this option to recover the additional administrative costs and lost investment revenue to the Auto Fund.

Investments

Investments are in Canadian government treasury bills and bonds, corporate bonds, debentures and shares, mortgages and a pooled equity fund. The following table shows the book and market values of these investments at Dec. 31, 2005 and 2004. Net unrealized gains at Dec. 31, 2005 are $88,461,000 (2004 – $69,138,000).

▶ (thousands of $)	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 48,474	$ 48,474	$ 19,690	$ 19,690
Bonds and debentures	681,593	688,340	603,573	615,015
Pooled equity fund	48,694	55,792	44,473	46,642
Canadian common shares	106,289	167,192	112,086	155,738
U.S. common shares	51,546	61,707	43,467	52,520
Mortgages	58,014	60,145	50,279	52,770
Income producing property	8,829	10,250	9,077	9,408
Total investments	$ 1,003,439	$ 1,091,900	$ 882,645	$ 951,783

Accounts payable and accrued charges

At Dec. 31, 2005 accounts payable and accrued charges were $18,065,000 (2004 – $13,142,000), an increase of 37% from last year. The increase primarily relates to the $3,189,000 correction in the accounting for the International Registration Plan program refunds in the current and prior years. This amount is owing to a related party, the provincial department of Finance. Further details of this correction can be found below in *Prior period adjustment* and as well as in Note 3 to the financial statements.

Provision for unpaid claims

At Dec. 31, 2005 the provision for unpaid claims was $730,930,000 (2004 – $685,318,000) an increase of 7% from last year. The key components of the change in the provision for unpaid claims are discussed in the *Claims incurred* section above.

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The process for determining the provision requires management judgment and estimation as discussed in the following section *Critical Accounting Estimates*.

Equity

Rate Stabilization Reserve (RSR)

At Dec. 31, 2005, the balance in the RSR was $163,323,000 (2004 – $136,942,000). The change in the balance is due to the current year's surplus of $61,381,000, reduced by the $35 million appropriation to the Redevelopment Reserve. As well, a $3,189,000 reduction to the opening balance was recorded to correct for an error discovered in the accounting for refunds issued under the International Registration Plan program. This correction is discussed below in *Prior period adjustment* and in Note 3 to the financial statements.

Redevelopment Reserve

The existing Auto Fund information system is being replaced at a cost not to exceed $35 million. It is anticipated to be complete by the end of 2010. The project is required to address the antiquity of current systems, make improvements in delivering changes, offer more choices for customers, provide better and more accessible information and better position the Auto Fund for future demands.

A $35 million Redevelopment Reserve has been established to ensure that adequate funding is available to meet the Auto Fund's commitment to this important project. SGI believes the Redevelopment Reserve is fiscally prudent, provides transparency on how the Rate Stabilization Reserve is being managed and communicates the Auto Fund's total financial commitment towards the redevelopment project. The $35 million was funded through an appropriation from the Rate Stabilization Reserve and was done in the third quarter of 2005.

Prior period adjustment

Subsequent to year end, it was determined that the Auto Fund had incorrectly accounted for refunds issued under the International Registration Plan program, which is administered on behalf of Saskatchewan Finance. The error resulted in under remittance to Saskatchewan Finance of $3,189,000 based on the period covering 1999 to 2004. As this error occurred in years prior to 2005, it has been recorded as a prior period adjustment in accordance with Canadian generally accepted accounting principles, including retroactive restatement of certain 2004 balances as described in Note 3 to the financial statements.

Off-Balance Sheet Arrangements

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position – commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. These items are discussed below and in the notes to the financial statements.

The Auto Fund, as is common to other entities that operate in the insurance industry, is subject to litigation arising in the normal course of insurance operations. The Auto Fund is of the opinion that current litigation will not have a material impact on operations, financial position or cash flows of the Fund.

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the property and casualty industry. The Auto Fund has paid $24,488,000 (2004 – $24,539,000) to these financial institutions to fund these settlements and has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered as being extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile accidents. Funding commitments, which are detailed further in Note 16 to the financial statements, range from $10,500,000 to $18,835,000 per year for the next five years.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are described in Note 2 to

the financial statements. Certain of these policies involve critical accounting estimates because they require SGI as the administrator to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit and Finance Committee of the Board of Directors, and the Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and impairment of investments.

▶ Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims, and incurred but not yet reported claims as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the timeframe anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known at that time. As well uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, only long-term disability claims included in this provision are discounted. Any adjustments to these estimates, both positive (a redundancy) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's statement of operations.

▶ Impairment of investments

The establishment of an impairment of an investment security requires a number of judgments and estimates. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- identifying all security holdings in an unrealized loss position that have existed for at least six months;
- assessing if declines in market value are other than temporary for debt security holdings based on the investment grade credit rating from third-party security rating agencies; and
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

Upcoming Changes In Announced Accounting Standards

The following is a summary of announced changes to Canadian accounting standards that the administrator believes will have an impact on the financial reporting of the Auto Fund. This is not an exhaustive listing of all announced changes by the CICA.

Early in 2005, the CICA issued Handbook Sections 1530 *Comprehensive Income*, Section 3251 *Equity*, and Section 3855 *Financial Instruments – Recognition and Measurement*.

▶ Financial instruments – recognition and measurement

This accounting standard specifies that financial assets and financial liabilities are only recognized when contractual provision allows. While financial assets and liabilities are initially recorded at fair value, subsequent measurement depends upon the financial instrument classification to one of three categories: held for trading, held to maturity or available for sale. The impact of this accounting change on the financial statements is currently being assessed. While the impact is expected to be far reaching, the most significant impact is expected to be related to the measurement of the investment portfolio, as described in Note 6 to the financial statements. At Dec. 31, 2005 investments are recorded at a book value of $1,003,439,000 and have a fair value of $1,091,900,000.

▶ Comprehensive income and equity

This new accounting standard requires a fourth financial statement, the Statement of Comprehensive Income, be produced and reported with the same prominence as the other three financial statements. The new statement presents surplus and other components that are recognized in determining comprehensive income. Comprehensive income is defined as the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income includes those revenues, expenses, gains and losses that are included in comprehensive income, but excluded from surplus. Other comprehensive income includes unrealized gains or losses on financial assets classified as available for sale. Section 3250, *Equity*, requires accumulated other comprehensive income be disclosed as a separate item within a company's equity. The administrator is assessing the impact of these accounting changes on the Auto Fund's financial statements.

The above new accounting standards apply to interim and annual financial statements that relate to fiscal years starting on or after Oct. 1, 2006. The Auto Fund will adopt these standards in its fiscal year commencing Jan. 1, 2007.

Risk Management

Understanding and managing risk is important to the Auto Fund's success. Risks represent potential threats to meeting the objectives set forth and affect the ability to take advantage of opportunities as they present themselves. Senior management of SGI, acting as the administrator of the Auto Fund, has a process to formally review risks semi-annually. This review includes identifying, analyzing and ranking the key risks based on their likelihood of occurrence and their potential impact. This process results in a risk profile for the Saskatchewan Auto Fund. Mitigation plans are developed to minimize the impact or likelihood of occurrence of the identified risks, based on their risk ranking. The risk profile is reviewed, and input provided, by the Audit and Finance Committee of the Board of Directors. The administrator's Audit Services branch also uses the risk profile in developing its annual work plan.

The following are the main risks that are managed to reduce their impacts on operations and profitability. It is not an exhaustive list of all risks the Auto Fund faces. They are presented in the same order as they are ranked by SGI and presented to the Audit and Finance Committee.

Provision for unpaid claims (or reserve risk) is the risk that the reserves set aside today are not enough to meet the Auto Fund's liability for unpaid claims. The Auto Fund maintains a reserve to cover the liability for future payments on reported claims and an estimate for claims that have not yet been reported. These amounts are estimates, and the ultimate payment on these claims may differ from the estimate. Fluctuations in this reserve are monitored on an ongoing basis to limit their impact on operations.

Capital availability and liquidity risk relates to cash resources being available at the time when the Auto Fund obligations come due. The Auto Fund is a self-financing fund and does not receive capital injections from the Province of Saskatchewan, CIC or SGI. Actual cash flows are monitored and anticipated cash flows are projected, which are used to determine funds available to invest or funds required from the investment portfolio. Legislation requires the Auto Fund to follow the same investment criterion that a federally-regulated property and casualty insurance company must follow. The Auto Fund has committed $35 million over the next five years for redevelopment of the computer software used to maintain its operations.

More details on the investment portfolio are contained in Note 6 to the financial statements. The majority of the portfolio is in treasury bills and highly liquid bonds and debentures issued or guaranteed by Canadian governments. The Auto Fund also invests in corporate bonds and publicly traded North

American equities. It has diversified its exposure to North American stock markets by participating in an actively managed non-North American pooled equity fund.

Catastrophe exposure risk relates to losses arising from catastrophic events. With the Auto Fund insuring all vehicles in the province, it is susceptible to large losses from major storms in Saskatchewan. To limit this risk, it purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events.

Risk to information systems involves the security of data from accidental or deliberate destruction and from outside intrusion. It also involves the security of corporate hardware from failure, destruction or theft, maintaining up-to-date versions of software/hardware, along with keeping abreast of changes in information technology. Data is secured using modern systems of access and protection along with regular backups. SGI has developed and regularly reviews its business continuity plan, which includes provision for an alternative computing services site for major applications that can be instantly activated.

Privacy management risk is that the Auto Fund releases or uses private information without proper authorization. The improper release of information would cause financial and reputational harm. To reduce this risk, SGI as the administrator of the Auto Fund has developed a privacy management framework that meets legislative requirements imposed by *The Freedom of Information and Protection of Privacy Act* (Saskatchewan), *The Health Information Protection Act* and other privacy legislation. The framework ensures that policies and practices are in place to protect privacy and personal information maintained by SGI. It has access controls that limit access to the data. All employees, including the Board of Directors, are subject to SGI's Code of Ethics and Conduct policy and Information Technology policy. All employees of SGI are required to take privacy training.

Investing risk relates to changes in interest rates, foreign currency and market values. Lower interest rates impact the earnings of the investment fund that is used to pay claims. The returns from capital markets, both domestic and foreign, are uncertain and will fluctuate from year to year. A Statement of Investment Policies and Goals (SIP&G) is reviewed annually by internal and external investment consultants and is approved by the Investment Committee of the Board annually. No derivative financial instruments are used to alter the effects of market changes and fluctuations. The main goal of the SIP&G is to have an investment policy and strategy that is based on prudence, regulatory guidelines and claim settlement patterns with a view to maximize long-term returns utilizing a conservative investment portfolio.

The investment manager follows the SIP&G, which provides guidelines for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market-value fluctuations by requiring

investments in different pools and in domestic and foreign markets. Some of the quantity and quality investment limits are based on legislative requirements in The Insurance Companies Act (federal). The SIP&G also has rate of return standards for the portfolio and performance return measurement standards for the investment manager. The investment manager produces quarterly reports on the performance of assets under its management that are reviewed by corporate management and the Investment Committee of the Board of Directors.

Foreign currency exposure arises from holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against foreign currencies result in a positive or negative effect on the fair value of investments. Foreign currency risk is managed by limiting holdings of foreign investments to a maximum of 14% of the market value of the entire investment portfolio.

Reinsurance risk relates to a financial loss due to inadequate coverage, default or financial failure of a reinsurer. The Auto Fund annually reviews reinsurance requirements to determine the type and amount required for sustaining the Auto Fund's operations. Reinsurers are selected based on their financial strength, coverage available and on the cost of the reinsurance. Due to the number of worldwide disasters in the last five years, the availability and cost of reinsurance available to the Auto Fund has become increasingly expensive but not cost prohibitive. Reinsurance is required to sustain operations and to help minimize rate increases. Reinsurance does not relieve the Auto Fund of its financial responsibilities to policyholders, but helps to pay these claims in the event of a catastrophic event.

Related-Party Transactions

The Saskatchewan Auto Fund is related in terms of common ownership to all Government of Saskatchewan departments, agencies, boards, commissions, Crown corporations and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. See Note 14 to the financial statements for the details of these transactions.

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and claim adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $78,924,000 (2004 – $73,303,000) and accounts receivable are $1,736,000 (2004 – $1,764,000).

The Auto Fund, as lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with Saskatchewan Property Management, a provincial government department. This lease expires in April 2011. Further details for this lease are provided in Note 7 to the financial statements.

Outlook for 2006

As discussed in the President's message, there is a new vision statement that will guide the Auto Fund in 2006 and beyond:

> We will be the best customer-driven and affordable automobile insurance plan in Canada.

The vision to be customer driven means the Auto Fund wants to anticipate the expectations of its customers and exceed them. In 2006 it will be developing tools for understanding what customers want by using a combination of market research, polling, customer councils and front-line staff information. While current customer surveys suggest the Auto Fund is doing a good job, it will continue to look for improvements in its Balanced Scorecard results.

The Auto Fund remains committed to providing Saskatchewan residents with the lowest rates for automobile insurance in Canada. Balanced Scorecard targets continue to focus on areas of financial diligence that will support this, such as low administration costs, strong investment earnings combined with an adequate RSR to prevent rate shock for customers. The Auto Fund will continue the trend of no increases to rates for the sixth consecutive year. In fact, effective Jan. 1, 2006, the Safe Driver Recognition program was further improved by recognizing "Platinum" customers, the safest drivers. While the maximum discount available has not changed, drivers will be able to earn a safety rating in excess of +10, building a cushion that will lessen the impact if the driver is responsible for a traffic incident in the future.

Another prime example of how the Auto Fund is working to achieve its vision of being the best customer-driven and affordable automobile insurance plan in Canada is the rebate the Auto Fund will issue to its customers during 2006. The strong financial position at the end of 2005 has allowed the Auto Fund to offer a one-time rebate to customers who were policyholders during 2005, subject to certain restrictions. The average rebate is expected to be $87. This rebate is expected to reduce the RSR by $45 million. Customers helped the Auto Fund to attain its solid financial position and we are glad to be able to offer this rebate to customers, who already pay the lowest auto insurance rates in the country.

During 2006 work will continue on the Auto Fund System Redevelopment project, with a goal to meet deadlines and remain on budget. During 2006 the detailed design of release 1 of the project is expected to be completed. The first of five releases will go into production in early 2007.

The Auto Fund will endeavour to maintain rates as low as possible, improving fairness in individual rates and providing outstanding customer experience. It will continue its role as a national leader in traffic safety initiatives and will always look for creative solutions for customers.

Caution Regarding Forward-Looking Statements

Forward-looking statements include among others statements regarding the Saskatchewan Auto Fund objectives, strategies and capabilities to achieve them. These statements are not historical facts. Forward-looking statements are typically identified by words such as believe, expect, will, would, should, expect, may and could or other comparable words. These statements involve risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by SGI, as the administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed appropriate in the circumstances. Many factors could cause our actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking statements. Some factors that could cause such differences are discussed under the section *Risk Management* in this MD&A. The *Risk Management* section is not a comprehensive list of all possible factors, and other factors could also adversely affect the Auto Fund's results.

SGI, as the administrator of the Auto Fund, deems that the assumptions built into forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Auto Fund. Undue reliance should not be placed on forward-looking statements, which only apply as of the date of this MD&A document. The Auto Fund does not undertake to update any of the forward-looking statements that may be made from time to time by or on the administrator's behalf.

Responsibility for Financial Statements

The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Auto Fund and the nature of the insurance policies. The actuary also makes use of management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Auto Fund. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG LLP have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President
Saskatchewan Government Insurance
as Administrator of the
Saskatchewan Auto Fund

Don Thompson
Vice President, Finance and Administration
Saskatchewan Government Insurance
as Administrator of the
Saskatchewan Auto Fund

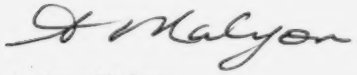
February 22, 2006

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of Saskatchewan Auto Fund for its statement of financial position at December 31, 2005 and their change in the statement of operations and Rate Stabilization Reserve for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



Andrea Malyon
Fellow, Canadian Institute of Actuaries

February 22, 2006

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2005 and the statements of operations and Rate Stabilization Reserve and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 22, 2006

Statement of Financial Position

▶ December 31 (thousands of $)	2005	2004 Restated (Note 3)
Assets		
Cash and cash equivalents (note 4)	$ 21,764	$ 35,714
Accounts receivable (note 5)	124,332	118,319
Deferred policy acquisition costs	17,117	16,353
Prepaid expenses and inventories	4,529	4,725
Investments (note 6)	1,003,439	882,645
Net investment in capital lease (note 7)	4,046	4,605
Property, plant and equipment (note 8)	38,155	38,609
	$ 1,213,382	$ 1,100,970
Liabilities		
Accounts payable and accrued charges	$ 18,065	$ 13,142
Premium taxes payable	26,101	26,359
Unearned premiums	239,963	239,209
Provision for unpaid claims (note 9)	730,930	685,318
	1,015,059	964,028
Equity		
Rate Stabilization Reserve	163,323	136,942
Redevelopment Reserve (note 10)	35,000	–
	198,323	136,942
	$ 1,213,382	$ 1,100,970

Commitments and contingencies (note 16)

(see accompanying notes)

Statement of Operations and Rate Stabilization Reserve

▶ year ended December 31 (thousands of $)	2005	2004 Restated (Note 3)
Gross premiums written	$ 522,023	$ 526,760
Net premiums written	$ 519,691	$ 524,724
Net premiums earned	**$ 519,954**	$ 511,968
Claims incurred	460,208	392,689
Issuer fees	20,931	18,111
Administrative expenses	28,062	25,802
Premium taxes	26,083	25,718
Traffic safety programs	11,144	9,471
Total claims and expenses	**546,428**	471,791
Underwriting profit (loss)	**(26,474)**	40,177
Investment earnings (note 11)	67,679	63,244
Other income (note 12)	20,176	21,523
Increase to Rate Stabilization Reserve	**61,381**	124,944
Rate Stabilization Reserve, as previously reported	140,131	14,352
Prior period adjustment (note 3)	(3,189)	(2,788)
Opening Rate Stabilization Reserve, restated	136,942	11,564
Appropriation to Redevelopment Reserve (note10)	(35,000)	–
Related party transaction	–	434
Rate Stabilization Reserve, end of year	**$ 163,323**	$ 136,942

(see accompanying notes)

▶ year ended December 31 (thousands of $)	2005	2004 Restated (Note 3)
Cash provided by (used for):		
Operating activities		
Net increase to Rate Stabilization Reserve	$ 61,381	$ 124,944
Non-cash items:		
Amortization	6,235	6,404
Realized gain on disposal of investments	(36,495)	(35,248)
Realized gain on disposal of property, plant and equipment	–	(687)
Investment write downs	4,943	5,306
Change in non-cash operating items (note 13)	44,450	(26,312)
	80,514	74,407
Investing activities		
Purchases of investments	(1,970,674)	(1,437,131)
Proceeds on sale of investments	1,877,761	1,356,699
Repayment of capital leases	559	523
Purchases of property, plant and equipment	(2,122)	(1,786)
Proceeds on disposal of property, plant and equipment	12	963
	(94,464)	(80,732)
Decrease in cash and cash equivalents	**(13,950)**	(6,325)
Cash and cash equivalents, beginning of year	35,714	42,039
Cash and cash equivalents, end of year	**$ 21,764**	$ 35,714

(see accompanying notes)

▶ December 31, 2005

1. Status of Auto Fund

The Saskatchewan Auto Fund (the Auto Fund) was established effective Jan. 1, 1984 by an amendment to *The Automobile Accident Insurance Act*. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No Fault or Tort coverage.

The Auto Fund is a self-sustaining fund, administered by Saskatchewan Government Insurance, with any annual excess or deficiencies recorded in the Rate Stabilization Reserve. The Rate Stabilization Reserve is held on behalf of Saskatchewan's motoring public and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from catastrophic events.

2. Significant Accounting Policies

The accounting policies of the Auto Fund are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares, pooled equity funds and income producing property are valued at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date.

The Auto Fund has a one-third interest in a real estate joint venture, which is accounted for using proportionate consolidation. The resulting income producing property is being amortized over its estimated useful life of 50 years on a straight-line basis. The other interests in this joint venture are SaskPen Properties Ltd. (SaskPen) and a private sector investor. SaskPen is a real estate corporation owned by Province of Saskatchewan employee pension plans.

Investments are written down when there is a decline in value that is other than temporary.

Capital leases

Investment earnings related to direct financing leases are recognized in a manner that produces a constant rate of return on the investment in each lease. The net investment in leases is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Buildings and improvements	2 1/2 – 5%
Computer hardware, system costs and other equipment	20 – 50%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjusting expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Redevelopment Reserve

The Board of Directors approved that the Redevelopment Reserve be established, through an appropriation from the Rate Stabilization Reserve, to meet the Auto Fund's commitment to redevelop its information system (note 10). As redevelopment expenses are incurred and charged against income, funds will be appropriated back to the Rate Stabilization Reserve from the Redevelopment Reserve.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims (note 9).

3. Prior period adjustment

During the year the Auto Fund adjusted amounts previously reported related to the International Registration Plan program administered by the Auto Fund for Saskatchewan Finance. Refunds on the program were accounted for incorrectly resulting in premiums written and amounts owing from the General Revenue Fund being overstated. The correction is based on refunds covering the period 1999 through 2004 and has been accounted for retroactively with restatement of the prior period reported. The effect of the correction to the financial statements as at Dec. 31, 2004 is outlined below:

▶ (thousands of $)	2004
Statement of Financial Position	
Accounts receivable	$ (3,107)
Accounts payable and accrued charges	82
Rate Stabilization Reserve	(3,189)
Statement of Operations and Rate Stabilization Reserve	
Gross premiums written	(422)
Net premiums written	(422)
Net premiums earned	(401)
Prior period adjustment	(2,788)
Statement of Cash Flows	
Net increase to Rate Stabilization Reserve	(401)
Change in non-cash operating items	401

4. Cash and cash equivalents

Cash and cash equivalents include $19,077,000 (2004 – $35,051,000) in treasury bills earning an average effective interest rate of 3.3% (2004 – 2.6%).

5. Accounts receivable

Accounts receivable is comprised of the following:

(thousands of $)	2005	2004 Restated (Note 3)
Financed premiums receivable	$ 100,197	$ 95,597
Accrued investment income	6,664	6,808
Amount recoverable on paid claims	6,102	6,039
Licence issuers receivable	4,744	3,089
Motor vehicles driver receivable	4,098	4,380
Due from SGI CANADA	1,736	1,764
Other	791	642
Total accounts receivable	$ 124,332	$ 118,319

Financed premiums receivable represent the portion of our policyholders' monthly premium payments that are not yet due. The majority of our policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

6. Investments

The carrying value and fair value of the Auto Fund's investments are as follows:

▶ (thousands of $)	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 48,474	$ 48,474	$ 19,690	$ 19,690
Bonds and debentures	681,593	688,340	603,573	615,015
Pooled equity fund	48,694	55,792	44,473	46,642
Canadian common shares	106,289	167,192	112,086	155,738
U.S. common shares	51,546	61,707	43,467	52,520
Mortgages	58,014	60,145	50,279	52,770
Income producing property	8,829	10,250	9,077	9,408
Total investments	$ 1,003,439	$ 1,091,900	$ 882,645	$ 951,783

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:

Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 3.1% (2004 – 2.6%) and an average remaining term to maturity of 59 days (2004 – 91 days). The Auto Fund's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:

The Auto Fund's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Auto Fund's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

(thousands of $)	2005		2004	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 320,899	3.9%	$ 263,679	4.1%
After five	73,478	4.3%	82,383	4.7%
Canadian provincial & municipal:				
One or less	4,641	7.0%	–	–
After one through five	61,388	5.2%	52,078	5.2%
After five	79,755	5.2%	62,976	5.6%
Canadian corporate:				
After one through five	109,850	4.7%	106,479	4.9%
After five	31,582	5.6%	35,978	5.9%
Total bonds & debentures	$ 681,593		$ 603,573	

For bonds and debentures, the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iii) Pooled equity fund:
The Auto Fund owns units in a non-North American pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

The fair value of the pooled equity fund is considered to approximate the quoted market values of

the underlying investments, based on the latest bid price.

(iv) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 2.1% (2004 – 1.8%).

The Auto Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Auto Fund's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The fair value of common shares is considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(v) Mortgages:
The mortgage portfolio consists entirely of Canadian commercial mortgages with an average effective interest rate of 6.5% (2004 – 7.0%) with an average maturity of 4.1 years (2004 – 3.7 years). Principal and interest is receivable on a monthly basis.

The Auto Fund's investment policy limits the maximum aggregate amount of mortgage loans to 20% of the total mortgage portfolio to any one borrower.

For mortgages, the fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(vi) Income producing property:
The income producing property consists of land and buildings with costs of $1,451,000 (2004 – $1,451,000) and $8,593,000 (2004 – $8,593,000) respectively and accumulated amortization of $1,215,000 (2004 – $968,000) on buildings.

7. Net investment in capital lease

The Auto Fund, as lessor, has a 63% interest in a lease agreement with Saskatchewan Property Management, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The Auto Fund's net investment in the capital lease includes the following:

▶ (thousands of $)	2005	2004
Total minimum lease payments receivable ($995,000 per year)	$ 5,220	$ 6,215
Unearned income	(1,174)	(1,610)
Net investment in capital lease	$ 4,046	$ 4,605

The fair value of the net investment in the capital lease is $4,901,000 (2004 – $5,448,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

8. Property, plant and equipment

The components of the Auto Fund's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

▶ (thousands of $)	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 6,979	$ –	$ 6,979	$ 6,979
Buildings and improvements	42,433	14,684	27,749	28,963
Computer hardware, system costs and equipment	29,892	26,465	3,427	2,667
Total	$ 79,304	$ 41,149	$ 38,155	$ 38,609

Amortization for the year is $2,564,000 (2004 – $2,825,000) and is included in administrative expenses on the Statement of Operations and Rate Stabilization Reserve. Included in computer hardware, system costs and other equipment are unamortized costs of $368,000 (2004 – nil) associated with redevelopment of the Auto Fund's information system.

9. Provision for unpaid claims

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors.

Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well,

uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Auto Fund's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Auto Fund settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Auto Fund provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the statement of financial position date total $24,488,000 (2004 – $24,539,000).

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of $365,824,000 (2004 – $341,399,000). These claims have been discounted using a rate of 2.5% to 6% to take into account the time value of money and also include a provision for adverse development.

Changes in the estimate for the provision for unpaid claims are as follows:

▶ (thousands of $)	2005	2004
Net unpaid claims - beginning of year	$ 685,318	$ 711,510
Payments made during the year relating to prior year claims	(140,025)	(142,515)
Deficiency (excess) relating to prior year estimated unpaid claims	2,615	(64,047)
Net unpaid for claims of prior years	547,908	504,948
Provision for claims occurring in the current year	183,022	180,370
Net unpaid claims - end of year	$ 730,930	$ 685,318

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by type of claim as follows:

(thousands of $)	2005	2004
Injury accident benefits	$ 566,411	$ 530,302
Injury liability	97,054	91,670
Damage	67,465	63,346
Total	$ 730,930	$ 685,318

10. Redevelopment reserve

Effective Sept. 30, 2005, the SGI Board of Directors approved a $35 million reserve be established to meet the Auto Fund's commitment to redevelop its information system. The $35 million was appropriated from the Rate Stabilization Reserve. The Redevelopment Reserve is expected to decline as redevelopment expenses are incurred and charged against income. As this occurs, an appropriation will be made to the Rate Stabilization Reserve from the Redevelopment Reserve.

11. Investment earnings

The components of investment earnings are as follows:

(thousands of $)	2005	2004
Income from interest	$ 30,052	$ 27,761
Realized gains on sale of investments	36,495	35,248
Income from dividends	4,805	4,206
Income from income producing property, net of operating costs of $934,000 (2004 – $932,000)	834	845
Income from capital leases	436	490
Investment write downs	(4,943)	(5,306)
Total investment earnings	$ 67,679	$ 63,244

Cash inflows from the income producing property are $1,058,000 (2004 – $1,094,000).

Investment write downs by category are as follows:

▶ (thousands of $)	2005	2004
United States common shares	$ (553)	$ (947)
Canadian common shares	(2,220)	(4,359)
Bonds and debentures	(2,170)	–
Total investment write downs	$ (4,943)	$ (5,306)

12. Other income

The components of other income are as follows:

▶ (thousands of $)	2005	2004
Net earnings on salvage sales	$ 6,017	$ 6,849
Payment option fees	14,159	13,987
Gain on disposal of property, plant and equipment	–	687
Total other income	$ 20,176	$ 21,523

The Auto Fund operates a salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. Total salvage sales in 2005 are $23,607,000 (2004 – $26,151,000).

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan which allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance (note 5). The fees charged for the payment options are included in other income.

13. Change in non-cash operating items

The change in non-cash operating items is comprised of the following:

(thousands of $)	2005	2004 Restated (Note 3)
Accounts receivable	$ (6,013)	$ (13,690)
Deferred policy acquisition costs	(764)	(1,068)
Prepaid expenses and inventories	196	677
Accounts payable and accrued charges	4,923	(280)
Premium taxes payable	(258)	1,655
Unearned premiums	754	12,586
Provision for unpaid claims	45,612	(26,192)
	$ 44,450	$ (26,312)

14. Related-Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Auto Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions and amounts outstanding at year end are as follows:

▶ (thousands of $)	2005	2004 Restated (Note 3)
Accounts receivable	$ 193	$ 153
Deferred policy acquisition costs	11,672	11,654
Investments	13,686	9,012
Accounts payable and accrued charges	3,151	3,354
Premium taxes payable	26,101	26,359
Unearned premiums	2,991	2,853
Provision for unpaid claims	90	411
Gross premiums written	6,705	6,047
Net premiums earned	6,701	5,911
Claims incurred	21,991	22,031
Administrative expenses	2,791	1,779
Premium taxes	26,083	25,718
Traffic safety programs	2,609	2,344
Investment earnings	539	580

Saskatchewan Government Insurance (SGI) acts as administrator of the Auto Fund. Administrative and claim adjustment expenses incurred by SGI are allocated to the Auto Fund and SGI directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $78,924,000 (2004 – $73,303,000) and accounts receivable are $1,736,000 (2004 – $1,764,000).

Other related-party transactions are described separately in the notes.

15. Fair Values

The fair value of financial assets and liabilities, other than investments (note 6), net investment in capital lease (note 7) and unpaid claims (note 9) approximate carrying value due to their immediate or short-term nature.

16. Commitments and contingencies

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents. The following is the funding anticipated to be provided over the next five years:

▶ (thousands of $)	
2006	$ 18,835
2007	$ 12,798
2008	$ 10,500
2009	$ 10,500
2010	$ 10,500

The Auto Fund has contracted with consulting firms to manage and consult on a project to redevelop its information systems for a cost of $7,832,000 for services to be provided from 2006 to 2010. A telecommunication contract with a related party for $1,255,000 (2004 - nil) is for services to be provided until 2008.

In common with the insurance industry in general, the Auto Fund is subject to litigation arising in the normal course of conducting its insurance business. The Auto Fund is of the opinion that this litigation will not have a significant effect on its financial position or results of operation of the Auto Fund.

17. Subsequent Event

Subsequent to the Auto Fund's year end, a rebate was approved whereby the Auto Fund will issue a rebate cheque to each of its customers who were policyholders during 2005, subject to certain restrictions. The rebate is expected to cost approximately $45 million and will result in a decrease to the Rate Stabilization Reserve.

18. Comparative Financial Information

For comparative purposes, certain 2004 balances have been reclassified to conform to 2005 financial statement presentation.

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
Composition of the Board	
1. The board should have a majority of independent directors.	Yes. The board of directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the board, Nancy Hopkins, is an independent director.
Meetings of Independent Directors	
3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The board of directors has meetings in-camera, during which no management is in attendance, at every board and committee meeting, as well as on an as-required basis. In addition, the board holds regular in-camera meetings where non-independent directors and members of management are not in attendance.
Board Mandate	
4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	Yes. The board has approved Terms of Reference (Mandate) which explicitly acknowledges responsibility for the stewardship of the corporation.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	Yes. The board has approved the corporate values to which all employees, including the CEO and senior management, are expected to operate.
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	Yes. The board of directors holds an annual multi-day strategic planning session. This session provides the basis of the corporation's strategic plan and initiatives, as well as direction to management in the formation of the corporation's operating budget and goals. Further, the board is provided with periodic updates during the year on the progress of the corporate strategic initiatives.
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	Yes. The board of directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The board of directors has charged the Audit and Finance committee with responsibility for this function and it reports to the board on those risks at least on an annual basis.
(d) succession planning (including appointing, training and monitoring senior management);	Yes. The board of directors has charged the Governance and Human Resources committee with responsibility for the corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the board.
(e) adopting a communication policy for the issuer;	Yes. The corporation has a formal communications policy which has been approved by the board of directors.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(f) the issuer's internal control and management information systems; and	Yes.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.	Yes.
The written mandate of the board should also set out:	
(i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and	Yes. The corporation also undertakes research annually on behalf of the board.
(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.	Position descriptions for directors are in the development stage and are expected to be approved and in place in 2006.
In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in National Policy 51-201 *Disclosure Standards.*	
Position Descriptions	
5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities.	Yes. The board has position descriptions for the board chair, the committee chairs and the CEO, as well, the board Terms of Reference includes management responsibilities.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	
Orientation and Continuing Education	
6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.	Yes. The Terms of Reference for the board specifies the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides an overview of the corporation, its operations and its industry. Further, directors are educated on the role of the board, its committees and the expectations of directors. The director position description, which is in development, describes a director's responsibilities.
7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	Yes. The board provided opportunities for all directors to increase their knowledge of issues and subjects facing the corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.
Code of Business, Conduct and Ethics	
8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	Yes. The board has adopted a written Code of Conduct for Directors and a Corporate Code of Ethics and Conduct which is applicible to directors, officers and employees.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;	Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(b) protection and proper use of corporate assets and opportunities;	Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(c) confidentiality of corporate information;	Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.
(e) compliance with laws, rules and regulations; and	Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(f) reporting of any illegal or unethical behaviour.	Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.
9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.	Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as required basis, the Human Resources committee may grant a waiver from the code.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or has not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s).	Not applicable.
Nomination of Directors	
10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised of entirely independent directors.
11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and	Yes. The Governance committee's charter is contained within its Terms of Reference.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	
12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:	
(a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	Yes. The Governance committee undertakes a skills assessment on an annual basis.
(b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.	Yes. The Governance committee undertakes a needs assessment on an annual basis.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.	Yes. The Governance committee reviews and recommends the size of the board.
In carrying out each of these functions, the board should consider the advice and input of the nominating committee.	Yes. The Governance committee reports regularly to the board and when required makes recommendations. It should be noted, however, that director appointments are made by Order-in-Council.
13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.	Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the board of directors and Crown Investments Corporation.
14. In making its recommendations, the nominating committee should consider:	
(a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;	Yes. The Governance committee reviews the competencies and skills required for the board as a whole.
(b) the competencies and skills that the board considers each existing director to possess; and	Yes. The Governance committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance committee reviews the competencies and skills of nominee directors.
The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.	Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the board member responsibilities.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
Compensation	
15. The board should appoint a compensation committee composed entirely of independent directors.	Yes. The board has delegated the responsibilities for compensation to the Human Resources committee.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or sub committees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	Yes. The Human Resources committee's charter is contained within its Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.
17. The compensation committee should be responsible for:	
(a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;	Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews the previous corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the board.
(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and	Yes. The Human Resources committee reviews and recommends to the board and Crown Investments Corporation any changes to compensation.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	Not applicable. Individuals reporting to the CEO, which include all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14-day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.
Regular Board Assessments	
18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	Yes. The board conducts on a rotational basis peer assessments and reviews of the board and the chair.
(a) in the case of the board or a board committee, its mandate or charter, and	Yes. The board and its committees review their terms of reference on an as-needed basis and at least every three years.
(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.	Yes. The board has a position description for directors, further, individual director's skills and competencies are reviewed as part of the regular assessments.

Glossary of Terms

Catastrophe reinsurance — A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Claims incurred — The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.

Combined ratio — A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting.

GAAP — Generally accepted accounting principles. These are defined in the Handbook prepared by the Canadian Institute of Chartered Accountants.

Gross premiums written (GPW) — Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve — Abbreviation for incurred but not reported. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

Loss ratio (Claims ratio) — Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Motor licence issuer — A person who negotiates driver's licences and vehicle registration/insurance on behalf of the Auto Fund who receives a fee from the Auto Fund for licences placed and other services rendered.

Net premiums earned (NPE) — The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW) — Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Premium — The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.

Premium tax — A tax collected from policyholders and paid to the province. It is calculated as a percentage of gross premiums written.

Prudent person — A common law standard against which those investing the money of others are judged against.

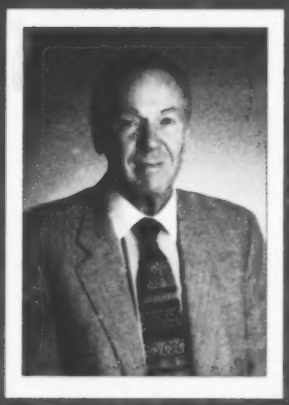
Redundancy & deficiency — Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.

Underwriting profit/loss — The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.

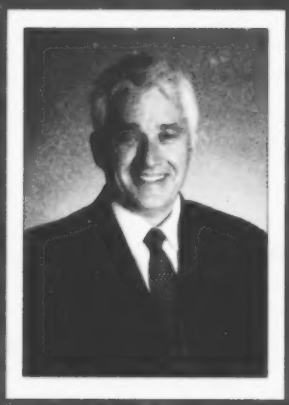
Unearned premiums — The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of insurance policies that are deferred to subsequent accounting periods.

Board of Directors

Nancy E. Hopkins (Chair)
Lawyer, McDougall Gauley,
Saskatoon, SK
Audit and Finance Committee,
Governance and Human Resources
Committee, Investment and Legislation
Review Committee

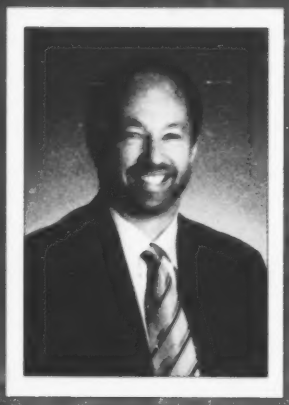


J. Walter Bardua
(Vice Chair)
Retired Insurance Professional, Nanaimo, BC
Governance and Human Resources
Committee (Chair)



Robert Fenwick
Retired Insurance Professional, Markinch, SK
Governance and
Human Resources Committee

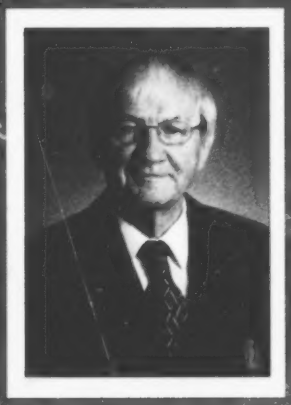
Merin Coutts
Regional Sales Manager,
Shaw Cable Systems G.P., Saskatoon, SK
Audit and Finance Committee



Dale Bloom
Corporate Secretary,
Crown Investments Corporation,
Regina, SK

Arleen Hynd
Retired Chartered Accountant, Regina, SK
Audit and Finance Committee
Governance and Human Resources
Committee

Kendra Chesney
Information Technology Analyst, SGI,
Regina, SK
Investment Committee



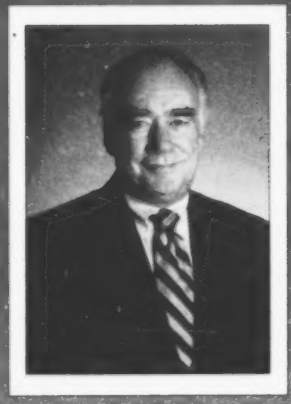
Jim Mills
Mayor, Elrose
Elrose, SK
Investment Committee

Joan D. Bellegarde
Executive Director, File Hills Qu'Appelle
Tribal Council,
Fort Qu'Appelle, SK
Investment Committee

Ron Osika
Retired RCMP
Former Saskatchewan Crop Insurance
Executive, Mayor, Fort Qu'Appelle
Fort Qu'Appelle, SK
Governance and Human Resources
Committee

Wayne Hovedebo
Farmer, Birch Hills, SK
Audit and Finance Committee

Joan F.D. Baldwin
Doctor, Regina, SK
Audit and Finance Committee (Chair)



W.J.A. (Bill) Heidt
Retired Insurance Professional, Kelowna, BC
Investment Committee (Chair)

SGI CORPORATE OFFICERS

VICE PRESIDENTS

Cheryl Barber
Human Resources

John Dobie
Canadian Operations

Don Thompson
Finance and Administration

Sherry Wolf
Auto Fund

Earl Cameron
Claims and Salvage

Randy Heise
Underwriting

Dwain Wells
Systems

SENIOR MANAGEMENT

Doug Campbell
Assistant Vice President
Injury Claims & Rehabilitation

Cara Low
Assistant Vice President
Corporate Actuary

Maureen MacCuish
Assistant Vice President
Communications

Penny McCune
Assistant Vice President
Rating & Actuarial Services

Lyle Mosiondz
Assistant Vice President
Claims Rural & Support Services

Grace Parsons
Assistant Vice President
Commercial Lines

Lorne Whippler
Assistant Vice President
Personal Lines

Anna Lapierre
Assistant Vice President
Licensing & Registration Services

Bob Lundy
Assistant Vice President
Claims Urban & Salvage

Andrea Malyon
Assistant Vice President
Corporate Actuary

Bernadette McIntyre
Assistant Vice President
Driver & Vehicle Safety Services

Brian Munro
Assistant Vice President
Corporate Controller

Don Phillips
Assistant Vice President
Legal

Betty Weigel
Manager, Business Affairs
and Corporate Secretary

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